

VIRGINIA FINANCIAL PERSPECTIVE

A REPORT TO THE CITIZENS OF THE COMMONWEALTH FOR FISCAL YEAR 1998

Prepared by the Department of Accounts
December 31, 1998

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EXECUTIVE SUMMARY - PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with generally accepted accounting principles and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Over the last several years, state and local governments have begun issuing simplified financial reports. These are often referred to as *popular reports*. These reports are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 1998, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginians informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

INDEX

	Page
Executive Summary.....	1
Virginia's Economy	2
Financial Statement Information	3
Commonwealth Balance Sheet	3
General Fund.....	4
Commonwealth Transportation Fund	6
Higher Education Fund.....	7
Pension Trust Fund	7
State Lottery	8
Alcoholic Beverage Control.....	9
Risk Management Program	9
Debt Administration.....	9
Other Financial Information	10
Cash Balances.....	10
Accounts Receivable.....	11
Accounts Payable.....	12
Transaction Volumes.....	12
Payment Systems.....	12
Personal Property Tax Relief	13
Year 2000 Readiness.....	13
Certificate of Achievement	13
Organization of Government.....	15

Virginia's Economy

Each year the CAFR includes a section describing the Commonwealth's economic outlook. For 1998, this analysis was performed by the Center for Public Policy at Virginia Commonwealth University.

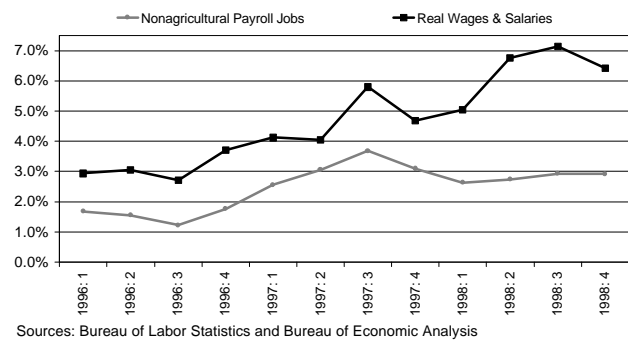
Virginia, along with the nation, has experienced a significant and sustained period of economic growth since the 1990-91 recession. During FY 1998, Virginia continued to outpace national growth rates in most measures of economic activity. While Virginia's labor market has remained tight, residents have received benefits from increased job growth and higher real wages and salaries. The 1998 fiscal year's analysis finds the Virginia economy surpassing national growth rates in personal income, total wages and salaries, total nonagricultural employment, and retail sales.

Virginia nonagricultural wage and salary employment grew by approximately 89,500 jobs in FY 1998, a 2.8 percent increase compared with 2.7 percent for the nation. The services sector grew by 57,100 jobs, accounting for 64 percent of Virginia's job growth. The majority of these jobs, 42,500, were added in high technology services subsectors. These include business services (25,600), health services (11,500) and engineering, architectural, and management consulting services (5,400).

The retail trade sector added 10,400 jobs and construction workers accounted for an increase of another 7,000 jobs. The growth in these two sectors reflects the strength of Virginia's retail sales and housing markets.

The Commonwealth's unemployment rate for FY 1998 is 3.4 percent, down from 4.3 percent for FY 1997. With Virginia's labor market remaining tight during FY 1998, companies have been raising wages and salaries in order to attract new workers. The year-to-year quarterly growth rates (fourth quarter, FY 1998 has been estimated by the Center) have been greater for wages and salaries than the growth rates in nonagricultural employment in each of the past twelve quarters (**Figure 1**). Virginia's residents continue to experience the twin benefits of increased job growth and higher real wages and salaries.

Figure 1
Virginia Job and Real Wage and Salary
Year-to-Year Quarterly Growth Rates, Fiscal Year Quarters

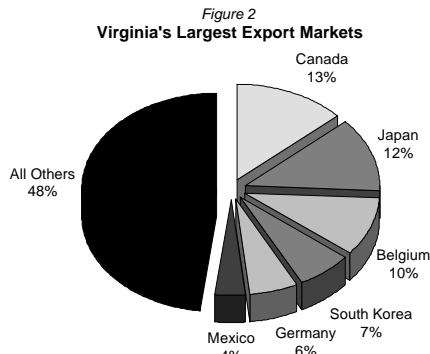


Total Virginia wages and salaries grew at 7.7 percent compared with 7.3 percent growth for the United States. This marks the second straight fiscal year that Virginia's wages and salaries grew at a pace equal to or greater than that of the nation.

Increases in income translated into increases in spending. Virginia retail sales grew by \$2.7 billion to reach \$58.4 billion in FY 1998. This increase amounts to a 4.9 percent growth rate for the Commonwealth while national retail sales grew by 4.6 percent. Although this marks the second straight fiscal year that Virginia has outpaced the nation, retail sales growth has slowed from its 5.3 percent pace in FY 1997.

Another indication of a strong Virginia economy is the growth of new and multifamily homes. Building permits increased by 6.6 percent from 43,969 in FY 1997 to 46,875 in FY 1998, rebounding from a 3.8 percent decrease in FY 1997.

Virginia's foreign exports surpassed \$11 billion in calendar year 1997, which ranks Virginia 17th among all states. Exports account for about 5 percent of Virginia's gross state product. **Figure 2** shows the State's six largest export markets ranked by dollar amount in calendar year 1997.



Source: Department of Commerce

Sagging Asian markets have begun to slow export growth in the United States. Also, cheaper Asian imports caused by the stronger dollar have increased competition in domestic markets. Given that approximately 20 percent of Virginia's exports are to Japan and South Korea, it is likely that Virginia will experience some of the impact of the Asian crisis. However, the relatively small share of gross state product that could be affected and the strength of other sectors in Virginia's economic base should temper such concerns.



This section contains **Financial Statement Information** for the Commonwealth of Virginia for the fiscal year ending June 30, 1998.

When Virginia state government reports on its finances, it does so on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 1997, and ended on June 30, 1998. This is referred to as fiscal year 1998, or FY 1998.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is kept independent. The financial information for FY 1998 was audited and received an unqualified auditor's opinion.

Virginia accounts for its revenues and expenditures within various *funds*. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which receives revenues from gasoline taxes, vehicle registration fees and a portion of sales taxes. A third fund is the Higher Education Fund, which accounts for financial activity of state colleges and universities. A fourth large fund is the Pension Trust Fund, which includes the assets of the state employees' pension system. The Enterprise Fund includes two other activities familiar to most Virginians, the state lottery and the sale of alcoholic beverages.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. Therefore, it is the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *generally accepted accounting principles*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Commonwealth Balance Sheet - GAAP Basis

A *balance sheet* summarizes the assets, liabilities and equity of an organization. As of the end of FY 1998, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$72.0 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$22.2 billion, leaving state government with a *total equity* (the amount left after liabilities are subtracted from assets) of \$49.8 billion. **Figure 3** is a condensed balance sheet for the Commonwealth as of June 30, 1998.

A balance sheet for government is similar to one for a private sector business in some respects, but different in others. One of the principal differences is the item under the assets, which is labeled as *Amounts to be Provided for the Retirement of Long Term Debt*. This item represents the value of legally enforceable commitments of the Commonwealth, and its various authorities, to provide funds for the payment of long term debt, primarily tax-exempt bonds, when they come due.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*.

Information is presented in this report on both the cash and GAAP basis of accounting, depending on which is more informative. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and account groups and does not include all of the State's component units. Component units are legally separate entities that are accountable to the State. Only the balance sheet on page 4 includes all of the State's funds, account groups, and component units.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. Requests for copies of the CAFR should be directed to the address given on the last page of this report.

Balance Sheet (GAAP Basis)

As of June 30, 1998

(Dollars in Millions)

Figure 3

ASSETS:

Cash and Investments	\$ 48,169
Accounts Receivable	9,714
Due from Other Funds	483
Inventory	183
Property, Plant and Equipment	9,766
Amount Available for Long-Term Debt	21
Amount to be Provided for the Retirement of Long-Term Debt	3,269
Capital Lease Receivable	51
All Other Assets	305

Total Assets	\$ 71,961
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LIABILITIES and EQUITY:

Liabilities:

Accounts and Other Payables	\$ 9,459
Bonds Payable	10,755
Due to Other Governments	361
Due to Other Funds	483
Estimated Tax Refunds Due	318
Capital Lease Obligations	252
Amount Due for Earned Leave	415
All Other Liabilities	91
Total Liabilities	22,134

Equity:

Higher Education Property and Equipment	4,293
Other State Property and Equipment	3,764
Donated Assets	963
Fund Balances /Retained Earnings	40,807
Total Equity	49,827

Total Liabilities and Equity	\$ 71,961
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General Fund - Cash Basis

During FY 1998, the General Fund received \$9.2 billion in resources. **Figure 4** illustrates the various revenue sources. Individual income taxes accounted for 59% of General Fund resources, while sales taxes made up 21%. These revenues plus other direct revenues from outside sources totaled \$8.8 billion, or 96%. The remaining monies totaling \$391 million came through transfers from other funds, including alcoholic beverage sales and lottery profits.

Revenues (not including transfers) increased by \$677 million over FY 1997. Individual income tax revenues, which grew by 14% compared to last year, played the major role in this growth.

General Fund disbursements (**Figure 5**) including transfers for FY 1998 totaled \$8.7 billion. Expenditures totaled \$7.3 billion and transfers to other funds were \$1.4 billion. Education accounted for 49%, including direct state aid for primary and secondary schools and General Fund transfers to support state colleges and universities. Support for social services, Medicaid, public health and mental health consumed 23% of the General Fund. Public Safety disbursed 17%, while only 4% were used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by \$432 million over the prior year. Of the total increase, Education accounted for 39%, Public Safety for 32%, and Individual and Family Services accounted for another 25%.

General Fund revenues exceeded expenditures and net transfers by \$507 million in FY 1998. In other words, the General Fund had an operating profit for the year. The profit resulted from increased tax receipts coupled with expenditures that were less than budgeted.

Figure 6 shows the General Fund balance - cash basis - at the end of each year since 1994. In FY 1994 Virginia was experiencing continued improvement in economic conditions and the balance stood at \$518.7 million. A \$168 million operating deficit in FY 1995, caused primarily by payments made to settle a lawsuit filed by federal retirees, reduced the General Fund balance at the end of FY 1995 to \$350.7 million. FY 1996's \$125.6 million profit

restored the balance to \$476.3 million. FY 1997's strong result boosted the balance to \$937.2 million. FY 1998's continuing strong economy brought the balance to \$1,444.2 million.

The balances shown in **Figure 6** are made up of "committed" funds, "available" funds, and the "rainy day" fund.

Balances are "committed" if there are plans in place for their use. "Available" balances may be used by the Governor and General Assembly for new projects or programs. At the end of FY 1998 there was an available balance of \$33.0 million, compared to an available balance of \$76.3 million at the end of FY 1997.

The "rainy day" fund is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. This fund, formally named the Revenue Stabilization Fund, is a reserve of fund balance which can only be used if state revenues decline sharply from the previous year. Reserved funds must be appropriated by the General Assembly when revenue collections are strong compared to the average for the previous six years.

The total amount reserved in FY 1998 is \$348.1 million. It is made up of \$79.9 million from 1993 collections, \$66.6 million from 1995 collections, \$58.3 from 1996 collections, \$123.8 million from 1997 collections and \$19.5 million in interest. Collections for FY 1994 did not require a contribution. An estimated contribution of \$194.1 million will be made based on collections in FY 1998.

Figure 4
General Fund Revenue Dollar
FY 1998, Cash Basis

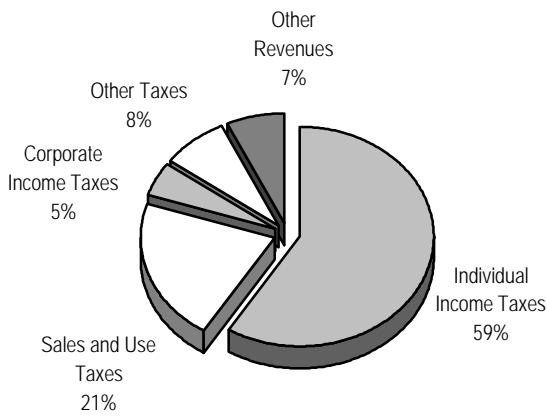
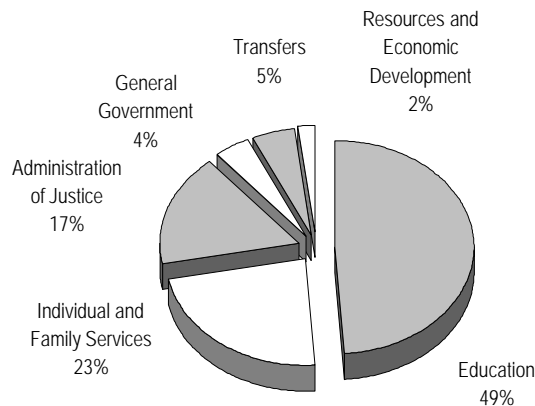
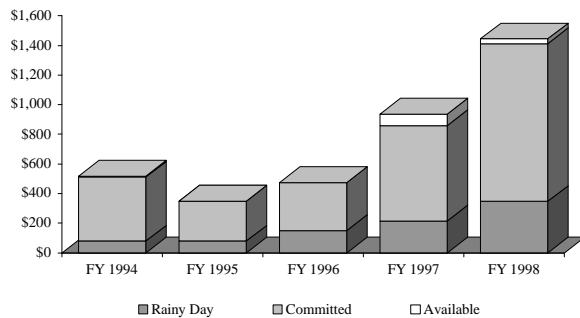


Figure 5
General Fund Disbursements Dollar
FY 1998, Cash Basis



General Fund Balance - Cash Basis
Highlighting the Available Fund Balance

(Dollars in Millions) Figure 6



General Fund - GAAP Basis

When the General Fund was accounted for on a *GAAP basis*, the fund had a positive balance of \$1,011.4 million in FY 1998,

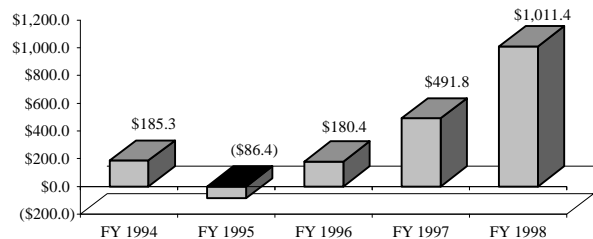
compared to a balance of \$491.8 million in FY 1997 (**Figure 7**). Virginia fully adopted GAAP financial reporting in FY 1983, and experienced GAAP deficits from FY 1990 through FY 1992 as a result of a recession. The deficit in FY 1995 was primarily the result of the federal retiree lawsuit noted earlier. GAAP deficits may occur in Virginia without violating the state Constitution or statutes which prohibit deficit spending. However, if a General Fund GAAP deficit were to continue over time, agencies that rate state debt could view this as a problem for state finances.

GAAP accounting requires that Virginia recognize several future liabilities which reduce fund balances to a greater degree than is recognized on the cash basis of accounting. Two of these liabilities are particularly significant (**Figure 8**). One is for *estimated tax refunds due* of \$318.3 million, which is an estimate of the state income taxes withheld during FY 1998 that will eventually be refunded. The other item is an amount of estimated *Medicaid claims payable* of \$152.3 million which represents medical services rendered in prior years that will not be paid for until FY 1999.

Figure 8 compares the General Fund on a cash and GAAP basis of accounting.

General Fund Balance - GAAP Basis

(Dollars in Millions) Figure 7



**Analysis of General Fund Balance
Cash Basis versus GAAP Basis**
For Fiscal Years Ended June 30, 1998 and 1997

(Dollars in Millions) Figure 8

	FY 1998	FY 1997
Fund Balance, Cash Basis	\$ 1,444.2	\$ 937.2
ADD:		
Sales Taxes Receivable	188.9	169.6
Withholding Taxes Receivable	211.3	177.3
Other Receivables	97.7	78.3
Inventory	32.1	30.7
Other Accrued Items	15.9	1.9
Total to be Added	545.9	457.8
LESS:		
Tax Refunds Payable	124.1	75.8
Estimated Tax Refunds Due	318.3	306.7
Medicaid Claims Payable	152.3	124.1
Federal Retirees Tax Liability	65.9	62.6
Sales Taxes Due to Localities	116.5	27.9
Other Accrued Items	201.6	306.1
Total to be Subtracted	978.7	903.2
Difference	(432.8)	(445.4)
Fund Balance, GAAP Basis	\$ 1,011.4	\$ 491.8

Commonwealth Transportation Fund - Cash Basis

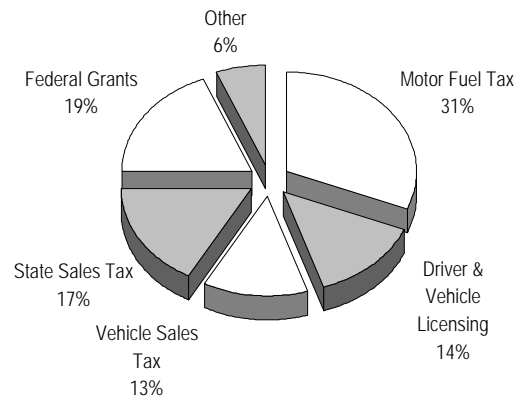
The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has over 69,633 miles of state roads.

The Commonwealth Transportation Fund (**Figure 9**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

Figure 9
**Commonwealth Transportation Fund
Revenue Sources
FY 1998, Cash Basis**



During FY 1998, the Commonwealth Transportation Fund had receipts of \$2.4 billion and expenditures of \$2.5 billion. At the end of FY 1998, the fund had a balance of \$773 million measured on a cash basis. On a GAAP basis, the fund balance was \$684 million.

Highway construction projects often require several years to complete. As of the end of FY 1998, the state had \$1.5 billion in outstanding construction contracts for various highway projects. State revenues contribute 76.9% of the funding for these projects, with 15.0% coming from the federal government and about 8.1% from bond proceeds. Local governments also contribute to the cost of highway construction.

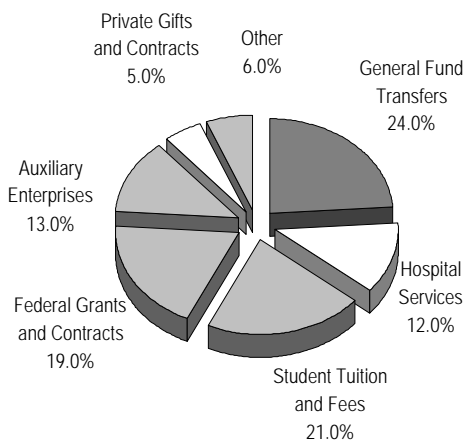
Higher Education Fund - GAAP Basis

The Higher Education Fund accounts for transactions related to resources received and used for the operation of the Commonwealth's institutions of higher education and one teaching hospital. In FY 1998, Virginia colleges and universities had current

revenues of \$3.1 billion, which was an 8.2% decrease from FY 1997. Revenues are derived from numerous sources including student tuition and fees, contracts, grants, private gifts, and sales and services through the hospital and auxiliary enterprises. Additionally, colleges and universities received transfers of \$1.1 billion. The General Fund was the source of \$1.0 billion of these transfers.

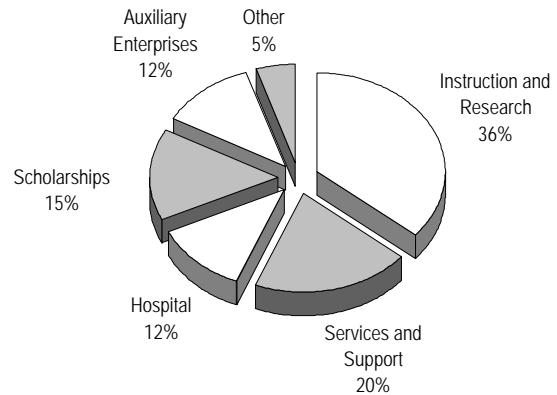
In terms of total resources for higher education in Virginia (**Figure 10**), the General Fund was the major contributor at \$1.0 billion in FY 1998, followed by student tuition and fees of \$852 million, federal grants and contracts of \$766 million, sales and services from hospitals and auxiliary enterprises (\$497 million and \$546 million, respectively), and private grants, gifts and contracts of \$222 million.

Figure 10
**Higher Education Fund
Revenue Sources
FY 1998, GAAP Basis**



Total current expenditures and other uses (**Figure 11**) totaled \$4.1 billion, a decrease of 3.1% from FY 1997. Spending for instruction and research (\$1.1 billion and \$374 million, respectively) accounted for 36.2% of higher education expenditures in FY 1998, followed by student services and support of \$816 million, scholarships and fellowships of \$624 million, auxiliary enterprises expenses of \$506 million, teaching hospital expenses of \$493 million, and other expenses and transfers of \$190 million.

Figure 11
**Higher Education Fund
Expenditures and Uses
FY 1998, GAAP Basis**



Virginia colleges and universities have a total equity of \$6.3 billion, including \$4.3 billion in land, buildings and equipment. Colleges and universities account for 54.1% of the total property owned by the Commonwealth. The value of college and university endowments totaled \$1.3 billion at the end of FY 1998.

Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state employees. This fund ended FY 1998 with a total equity of \$31.7 billion, and accounts for 63.6% of the Commonwealth's total equity held in all funds. During FY 1998 the fund received \$1.2 billion in contributions and earned \$5.0 billion on investment holdings. The increase in net assets after the payment of retirement benefits, refunds and operating costs was \$4.8 billion (**Figure 12**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

Statement of Changes in Plan Net Assets
Pension Trust Fund - GAAP Basis
For the Fiscal Year Ended June 30, 1998

<i>(Dollars in Thousands)</i>	<i>Figure 12</i>
Additions:	
Contributions	\$ 1,188,617
Investment Income:	
Interest, Dividends and Other Investment Income	4,923,260
Securities Lending Income	111,250
Total Investment Income	5,034,510
Less Investment Expenses	190,698
Net Investment Income	4,843,812
Other Revenue	132
Total Additions	6,032,561
Deductions:	
Retirement Benefits	997,056
Refunds to Former Members	81,642
Retiree Health Insurance Credits	17,372
Insurance Premiums and Claims	80,369
Administrative Expenses	17,394
Other Expenses	321
Total Deductions	1,194,154
Net Increase	4,838,407
Net Assets, July 1, 1997 (Restated)	26,911,124
Net Assets, June 30, 1998	<u>\$31,749,531</u>

A separately issued financial report that includes financial statements and required supplemental information is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

Employer and employee contributions are required by the *Code of Virginia*. The State pays the 5% of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions made for FY 1998 totaled \$146 million. This was less than the actuarially determined Annual Required Contribution of \$221 million, but did meet statutory requirements. The State has elected to allow employer contributions to include an annual amount that would phase in the funding requirements over a five-year period ending with FY 2002. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 13**) accounts for all receipts and disbursements from the sale of lottery tickets for the several different kinds of games.

Revenues, Expenses and Changes in
Retained Earnings
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 1998

<i>(Dollars in Thousands)</i>	<i>Figure 13</i>
Operating Revenues:	
Charges for Sales and Services	\$ 914,204
Total Operating Revenue	914,204
Operating Expenses:	
Personal Services	14,449
Contractual Services	93,921
Supplies and Materials	6,385
Depreciation	4,819
Lottery Prize Expense	493,233
Total Operating Expenses	612,807
Operating Income	301,397
Nonoperating Revenues:	
Interest, Dividends and Rents	10,136
Other	810
Total Nonoperating Revenues	10,946
Income Before Transfers and Changes	312,343
Operating Transfers Out	(10,578)
Transfers to the General Fund	(318,903)
Change in Accounting Principle	16,861
Net Income/(Loss)	(277)
Retained Earnings July 1, 1997 (Restated)	4,791
Retained Earnings June 30, 1998	<u>\$ 4,514</u>

During FY 1998, the Lottery had revenues of \$914 million and expenses, including lottery prize payments, of \$613 million. Income for the year, including interest earnings, was \$312 million. During FY 1998 \$319 million was transferred to the General Fund as required by law, and another \$10 million was transferred to the Literary Fund.

Alcoholic Beverage Control Fund - GAAP Basis

The "ABC" fund accounts for the receipts from the sale of alcoholic beverages. In FY 1998, ABC profits of \$21 million were distributed to the General Fund to use for current operations. Another \$11 million in ABC funds was transferred to the General Fund for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 1998 was \$31 million on \$275 million in total sales.

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is "self-insured" for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 1998, the self-insurance program had cash and other assets of \$96 million, while the estimated liability for claims payable was \$170 million. The program had additional liabilities of \$23 million, which resulted in a GAAP deficit balance of \$97 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

Debt Administration

The total outstanding debt on the books of the Commonwealth as of the end of FY 1998 was \$11.7 billion (**Figure 14**). Long term bonds and notes represent 96% of all debt, with the remaining 4% consisting of capital leases, installment purchase contracts and various other payables.

State Debt		
Tax Supported and Non-Tax Supported		
As of June 30, 1998		
Dollars in Thousands	Figure 14	
TAX SUPPORTED DEBT		
General Obligation Bonds:		
Public Facilities Bonds	\$ 441,265	3.8%
Parking Facilities Bonds	12,280	0.1%
Transportation Facilities Bonds	215,822	1.8%
Bond Anticipation Notes	64,000	0.5%
Higher Education Bonds	406,560	3.5%
Total General Obligation Bonds	1,139,927	9.7%
Other Tax Supported Debt:		
Transportation	756,700	6.4%
Port Authority	108,085	0.9%
Public Building Authority	942,656	8.0%
Innovative Technology Authority	12,630	0.1%
College Building Authority	217,620	1.9%
Long Term Capital Lease Payable	251,957	2.1%
Notes Payable	12,325	0.1%
Pension Liability	135,465	1.2%
Biotechnology Research Park	31,000	0.3%
Regional Jail Construction	65,510	0.6%
Other Long Term Obligations	35,201	0.3%
Total Other Tax Supported Debt	2,569,149	21.9%
Total Tax Supported Debt	3,709,076	31.6%
NON-TAX SUPPORTED DEBT		
Higher Education	325,725	2.8%
Housing Development Authority	5,286,522	45.0%
Hampton Roads Sanitation District		
Commission	191,012	1.6%
Public School Authority	1,655,579	14.1%
Virginia Resources Authority	362,814	3.1%
Other Long Term Obligations	215,757	1.8%
Total Non-Tax Supported Debt	8,037,409	68.4%
Total Commonwealth Debt	\$11,746,485	100.0%

Debt on the books of the Commonwealth can be classified into three categories: general obligation bonds of Virginia taxpayers, limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported), and debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 14**, a total of \$1.1 billion, or 9.7% of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of \$2.6 billion of this type of tax supported debt was outstanding at the end

of FY 1998. This is 21.9% of all debt on the books of the Commonwealth.

Non-Tax Supported Debt makes up 68.4% of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance various programs considered to provide a benefit to the public. Total debt in this category at the end of FY 1998 was \$8.0 billion.

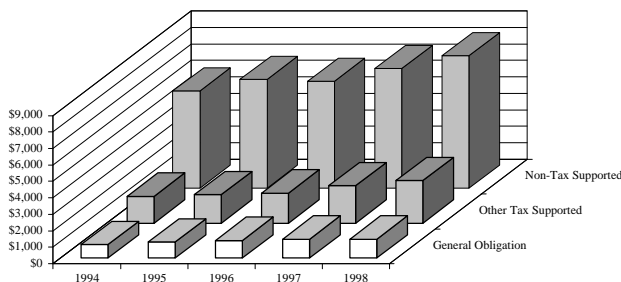
The largest of these authorities is the Virginia Housing Development Authority, which has \$5.3 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority, Hampton Roads Sanitation District Commission, and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, \$2.2 billion of the total carries a "moral obligation" promise by the state to consider funding any deficiencies in debt service reserves from tax revenues. To date, such deficiencies have not occurred.

Figure 15 summarizes the outstanding debt owed by the Commonwealth in all categories over five fiscal years.

Figure 15
Categories of Debt

(Hundreds of Millions of Dollars)



The following sections discuss **Other Financial Information** which may be of interest to the reader. Much of the information was reported in the State Comptroller's "Report on Statewide Financial Management and Compliance for the quarter ended June 30, 1998." This information is not included in the audited financial statements.

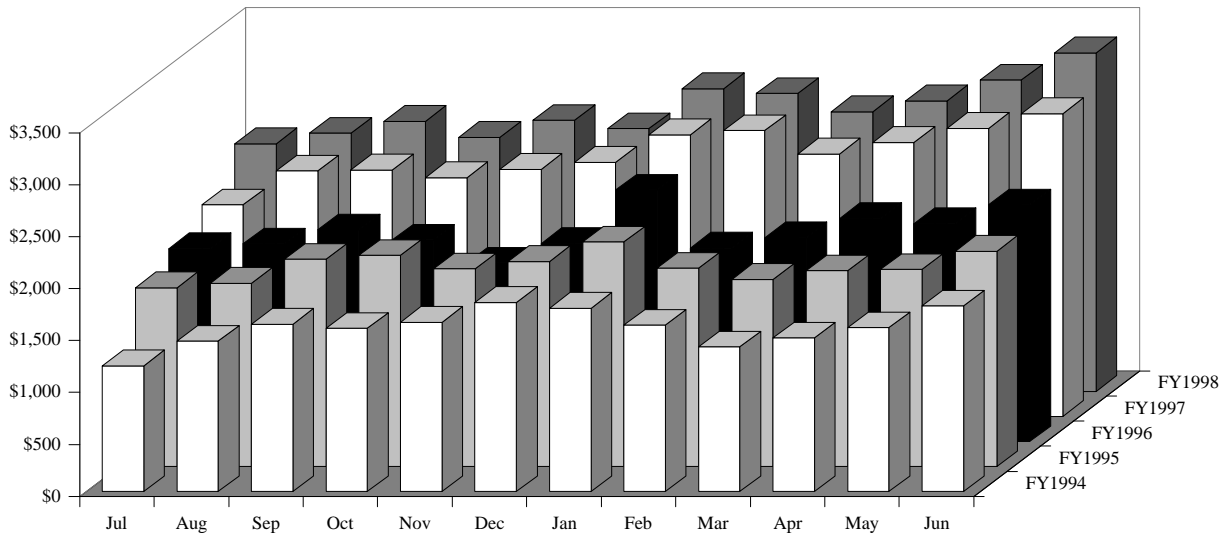
Cash Balances

Although the Commonwealth uses a number of funds for financial reporting purposes, cash is concentrated in a few accounts under the control of the State Treasurer. These accounts support all payments of state funds, while available cash balances are kept actively invested in secure, short-term securities. Of these accounts, the *general account* of the State Treasury is the most important because it includes cash from the great majority of the various state funds. These cash balances are monitored daily to ensure that funds are available to meet the obligations of the Commonwealth, and to maximize investment earnings on the available cash balances.

Figure 16 shows the monthly cash balances of the general account for the last five fiscal years. As shown in the figure, cash balances have grown significantly over the five-year period.

The general account had an average daily investment balance of \$3.0 billion during FY 1998. Earnings by the Treasury were \$181.5 million. The Treasury measures its investment results monthly against comparable investment indices and is able to consistently outperform them.

Figure 16
General Account Cash Balances
By Month, FY 1994 - FY 1998



Accounts Receivable

At the end of FY 1998 state government was owed \$1.3 billion (**Figure 18**). These amounts owed to the state are classified as *accounts receivable*, and are subject to a variety of collection programs. As is true with private businesses, a certain proportion of state accounts receivable are not expected to be collected, and these are classified as "doubtful" or "uncollectible" accounts. The balance is considered collectible. Of the \$1.3 billion owed, \$607 million was considered collectible (**Figure 17**). These amounts are owed to the state from a variety of different sources.

Eight state agencies had the majority of all accounts receivable at the end of FY 1998 (**Figure 18**).

The largest sources of uncollectible receivables in state government include: unpaid tax assessments, fines and penalties levied by the State's courts, patient billings for services provided by mental hospitals and indigent care programs at the teaching hospital, unrecovered overpayments to Medicaid providers, unpaid bills owed by businesses for unemployment insurance and workers' compensation insurance, and unpaid child support payments.

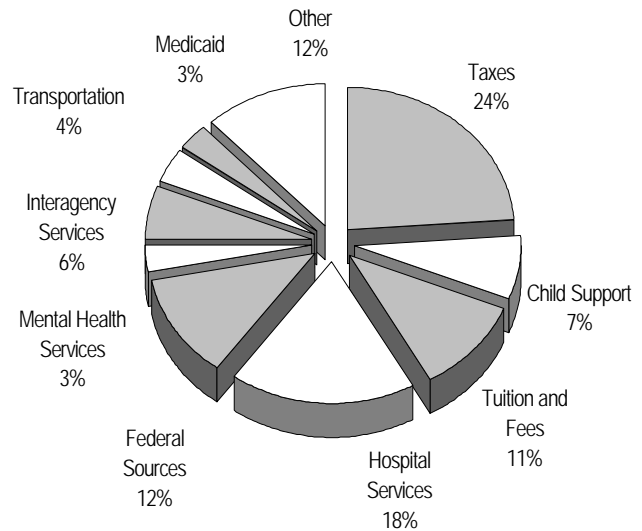


Figure 17
Collectible Receivables by Type
 As of June 30, 1998

Largest Accounts Receivable Agencies As of June 30, 1998

Agency/Institution	Gross	Allowance For Uncollectible Accounts	Collectible
Department of Taxation	\$ 592,492	\$ 479,356	\$ 113,136
Department of Social Services	139,510	69,745	69,765
UVA - Medical Center	114,422	7,876	106,546
Courts of Justice System	101,589	95,523	6,066
Virginia Employment Commission	50,881	10,813	40,068
Department of Education	42,612	0	42,612
Department of Medical Assistance Services	34,695	15,236	19,459
Department of Mental Health, Mental Retardation and Substance Abuse Services	32,787	13,165	19,622
Total	1,108,988	691,714	417,274
All Other Agencies	205,141	15,723	189,418
Grand Total	\$ 1,314,129	\$ 707,437	\$ 606,692

Accounts Payable

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly, and overdue payments entitle vendors to collect interest. Agencies must achieve a 95% compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

Figure 19 shows that for FY 1998, the state made 96.7% of its payments on time, and that 94.7% of the dollars owed were paid out in compliance with prompt payment requirements. The state paid out \$34,146 in interest on late payments during FY 1998 on total vendor payments of \$3.3 billion.

Figure 19
Statewide Prompt Payment Statistics
For FY 1998

Number of Late Payments	80,291
Total Number of Payments	2,446,401
Late Dollars (Thousands)	\$175,123
Total Dollars (Thousands)	\$3,328,901
Interest Paid	\$34,146
Percent of Payments in Compliance	96.7%
Percent of Dollars in Compliance	94.7%

Payment Systems

Approximately 60,500 payments totaling \$9.5 billion were made in FY 1998 using electronic payment systems. This helped to avoid the issuance of approximately 156,000 checks. Electronic payments were made to 188 grantees, 311 vendors and 391 localities. Also in FY 1998, approximately \$57.4 million in small purchases were made using the small purchase charge card program. This helped to avoid another 262,000 checks.

About 64.6% of state payments are made electronically. These include the paychecks of 81,308 employees who are paid through direct deposit to their bank accounts. However, the state still writes approximately 8.0 million checks per year, including 2.1 million tax refunds, 3.1 million social service payments, 1.4 million general warrants, and 759,600 payroll checks.

Transaction Volumes

Virginia's government finances require that state accounting and financial reporting systems process large numbers of transactions into accounting records. During FY 1998, 10.4 million transactions were recorded in the accounts.

Error rates for updates to the accounting records during FY 1998 remained at low levels, which were first achieved in FY 1992. This is a strong indication that agency accounting staffs are well trained and capable of carrying out their responsibilities.

Personal Property Tax Relief

During FY 1998, the General Assembly passed the Personal Property Tax Relief Act as proposed by Governor Gilmore. This means that the Commonwealth will assume financial responsibility for a certain portion of the personal property taxes collected by localities over a five-year period beginning in 1998. There is no impact on local revenues. The Commonwealth will fund localities in an amount equal to the amount of tax relief.

Specifically, the tax owed on the first \$20,000 of the value of any car, truck or motorcycle held for personal use will be eliminated by 2002. For 1998, the Commonwealth will reimburse taxpayers directly after they have paid their personal property tax bills. Beginning in 1999, personal property tax bills sent by localities will show the tax relief as a reduction in the amount owed on the personal property tax bills.

The timetable shown below in **Figure 20** shows the schedule for elimination of the personal property tax on the first \$20,000 of the value of qualifying vehicles.

Personal Property Tax Relief

Figure 20

Year	Percentage of Tax Relief
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%
2002	100.0%

Year 2000 Readiness

Many existing computer programs use only two digits to identify a year in the date field. These programs were designed without considering the upcoming change in the century. If not corrected, these programs could fail or create confusion by or at the year 2000.

The State recognized the need to ensure its critical business operations will not be harmed or unduly interrupted by Year 2000 software failures. The State has been modifying its computer systems to address this challenge, with particular emphasis on its "mission critical" systems, which include various financial systems.

On December 31, 1996, the Governor established the Century Date Change Initiative within the State to resolve computer problems associated with the arrival of the Year 2000. In addition, a Century Date Change Task Force was created. Each agency is primarily responsible for its own information systems; however, the State Data Administrator is given all the necessary powers to direct the State's efforts to ensure that it is Year 2000 compliant. State agencies have estimated that their total planned spending to address the Year 2000 problem is \$164.5 million. Total Year 2000 expenditures at June 30, 1998, were \$68.2 million.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 1997. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

Award for Outstanding Achievement in Popular Annual Financial Reporting

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**COMMONWEALTH
OF VIRGINIA**

**For the fiscal year ending
June 30, 1997**

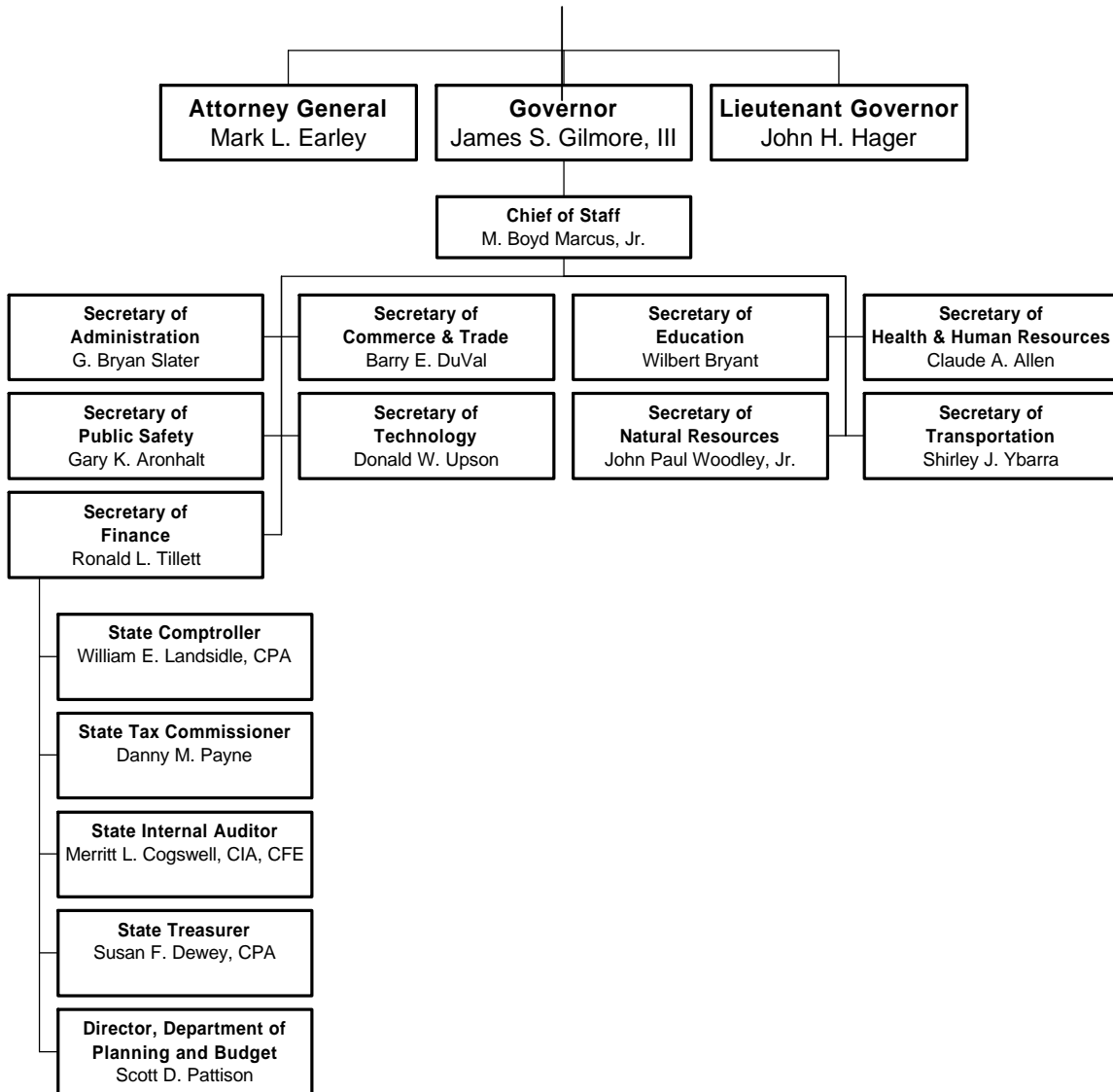


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President

Jeffrey L. Esler
Executive Director

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